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TAGS: [EPET](#) [ENRG](#) [EINV](#) [PGOV](#) [IZ](#)
SUBJECT: DPM BARHAM SALIH - IRAQ LOOKING FOR A NEW APPROACH
TO OIL?

REF: A. BAGHDAD 3397
[1](#)B. BAGHDAD 4067

Classified By: CETI Ambassador Marc Wall, reasons 1.4(b,d,e,g)

This report contains classified and market-sensitive
information.

[1](#)1. (U) This cable is an action request, please see paragraph
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[1](#)2. (C) Summary: In a January 7 meeting with EMIN Deputy
Prime Minister Barham Salih stated that Iraq's Ministry of
Oil has failed at the highest levels of management and that
the situation of Iraq's oil sector is a "disaster". The DPM
outlined his plan to hold a workshop of oil experts to focus
on the upstream sector of the Iraqi oil industry. He said
Iraq needs to change course immediately and the current bid
round method is completely inadequate to meet Iraq's needs
(REF: A). Salih requested assistance from the USG, World
Bank, and the United Kingdom to recommend oil and gas
experts. Additionally he asked for advice on organizing and
plotting the course of the workshop. The workshop should
define realistic Iraqi oil production goals for the short,
medium and long-term and identify the steps needed to meet
those goals. The DPM asked USG oil experts, World Bank
officials, and United Kingdom Embassy officials to meet with
him again on January 11, 2009 to provide input before he
meets with the PM to finalize plans on how to proceed.

Barham Salih Asks for Assistance

[1](#)3. (C) On January 7, 2009 EMIN and a team of Embassy oil
experts met DPM Barham Salih to discuss his request for
assistance on a GOI initiative to examine the direction of
its oil policy. EMIN also arranged to include Jean-Michel
Happi and Yahia Said from the World Bank's Baghdad office in
the meeting. The DPM described his goal: a workshop to
recommend a new course of action for Iraq's oil industry.
EMIN and World Bank provided a list of experts for the
workshop and discussed its potential pitfalls and goals. The
DPM stated that the committee formed by the PM to investigate
declining Iraqi oil production rates will give its final
report on January 10 or 11 (Ref B). He added that he will
meet with the PM on January 11th to finalize the date and
look over the list of experts suggested. The DPM requested
another meeting with USG oil experts, World Bank officials,
and United Kingdom officials on January 11--before he meets
with the PM.

Focus on Upstream

[1](#)4. (C) DPM Salih said that the immediate concern is declining
oil production rather than the overall Iraqi energy

infrastructure. Iraq should be producing three, six, eight, or ten million barrels a day, given its vast oil resources. The DPM said the workshop must concentrate on upstream issues in Iraq. It should define the policy and process for increasing Iraqi oil and gas production over the next 12 months as well as the next five to ten years. When asked if this workshop would address the stalled Iraqi hydrocarbons legislation, he said that the issues were completely separate; the moment needed to be seized while the PM's focus was on oil production. He noted that before the recent oil price declines, oil production had not been a priority.

Current Bid Rounds May Be Scrapped

15. (C) In response to our inquiry on how the efforts of the workshop would affect the bids announced by the MoO in October 2008 and due in April 2009, Salih said that the current bid parameters were inadequate to meet Iraq's needs. The current MoO plan is a "disaster" and added the Kurds had "really dropped the ball" in his view as well. Iraq needs Q"really dropped the ball" in his view as well. Iraq needs money from investment and technology immediately, and Iraq's oil industry needs a new direction. While the workshop will consider all types of contracting arrangements, Salih recognizes that some are politically sensitive in Iraq.

Structure and Timing of Workshop

16. (C) The DPM said that meetings on January 11th and 12th would decide the direction and dates of the workshop. The first workshop must take place before the end of January. The location of the workshop could be flexible, but he prefers Baghdad. Mr. Yahia Said of the World Bank suggested a two step approach: the first meeting would set the parameters and overall goals, with possible sub-groups being formed and further meetings coming later. DPM Salih seemed receptive to the idea. He said that a core GOI group should be formed consisting of himself, Thamir Ghabban and Bahr Al-Aloom. He added Minister of Oil Shahrستاني as a possible member. (Comment: He only added Shahrستاني after all others were listed, and he emphasized "possibly" before saying his name. End Comment)

17. (C) Salih's vision is for the workshop to set new goals soon, so the GOI can turn the situation around quickly. In addition to the top level core group, Mr. Said also recommend a technical core group to assist and advise. Salih said that he recognized the need to use people from within Iraq and the Ministry of Oil. He commended MoO officials, namely ex-South Oil Company DG Jabbar Al-Laebi, but said there was a complete failure of management leadership at the top level. He commended special advisor to the PM, Thamir Ghabban's work and recommendations, saying that the workshop may come up with the similar ideas. (Comment: We do not yet know the details of Ghabban's recommendations. End Comment) Salih added that the GOI needs to think "outside the box." As talented as the people within Iraq are, they needed an outside perspective to find a new direction.

Salih-Shahrستاني Friction is Serious

18. (C) DPM Barham Salih was especially strong in his criticism of Minister of Oil Shahrستاني. Throughout the meeting, he spoke about the failure of leadership at the MoO, while at other times commending MoO officials at the DG level. When asked if he thought procurement and letters of credit issues caused the bulk of the problems within the oil sector, Barham Salih answered quickly and strongly. Shahrستاني had been given every permission to make any purchase necessary. The Iraqi government had actually broken its own laws to give Shahrستاني permission to spend the USD

10 billion given to him for development over the past few years. Sharistani however, had never requested permission to make a larger purchase, or to expedite the normal contracting procedures.

Comment

¶9. (C) DPM Salih clearly lays the blame for the current situation on Shahrستاني. Describing managerial failure at the top of the MoO, Salih faults Sharistani for not using available authorities for rapid procurement. The wrangling and mixed messages between Sharistani and Salih may cause the International Oil Companies to hold off until the dust of this internal GOI dispute settles. The decision-making muddle on the oil Sector may further delay needed investment, but may also provide an opportunity for positive, transformative change and a much improved overall strategy. Prime Minister Maliki's focus on the oil sector is helping drive this initiative. If it succeeds, it will be a fundamental change in course in Iraqi oil policy.

Action Request

¶10. (SBU) Post requests that the Department engage with the World Bank staff in Washington. To obtain their support for this workshop. While the GOI may use the lists of experts we have provided as invitees to this workshop, World Bank expertise (as well as its perceived neutrality) will be a tremendous asset to the GOI if it is to pursue a new oil sector strategy.

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